



Wisconsin Alliance
for Excellent Schools

THE WISCONSIN ADEQUACY PLAN IN BRIEF

MEETING OF THE GOVERNOR'S TASK FORCE ON EDUCATIONAL EXCELLENCE
JANUARY 28, 2004
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WHO

The Wisconsin Alliance for Excellent Schools (WAES) is a diverse statewide coalition of school districts, parent organizations, teacher unions, community organizations, and religious congregations working for comprehensive school funding reform so that all Wisconsin children receive a quality education.

WAES members agree on four core principles:

- **Resources:** Schools need additional resources. Improved efficiencies alone are inadequate.
- **Foundation:** Districts should be guaranteed a per-pupil foundation level of resources. Additional revenue is needed for students with disabilities, students in poverty, students with limited English proficiency, and students in rural districts.
- **Taxes:** Additional revenue should come from state revenue, not local property taxes.
- **Local control:** Districts should control how additional revenue is used, and be accountable over time for improved student performance.

WHAT

Adequacy is the dominant trend in national school-finance reform. Under Adequacy, funding levels are based on the actual amount required for the infrastructure and resources schools need to educate children to reach state and federal educational goals.

Adequacy means determining the actual cost of providing a sound basic education – staff, materials, facilities – and creating a structure to deliver it.

Adequacy was used by the Wisconsin Supreme Court when it established a standard against which to measure the state school-finance system.

WHY

The current funding system in Wisconsin does not work:

- There are still large differences in the amount of money that schools have to educate their students. These differences are determined by accidents of geography, not need.
- The majority of school districts are facing serious fiscal shortages.
- After a decade of revenue controls, districts have improved their efficiency, and any extraneous expenses have been cut. Now, core programming is being dismantled.
- Lawmakers' decision in 2003 to abandon the state's "two-thirds" funding requirement is cutting state aid by \$450 million in the current biennium.
- The current system bases school revenue on whatever a district spent in 1993 (the base year for revenue controls), with little relation to what schools actually need to educate children.

How

The **Wisconsin Adequacy Plan** is built around a foundation plan based on actual resource costs, with four adjustments for special situations:

- Students with disabilities
- Students in poverty
- Students with limited English proficiency
- Small, rural districts

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ELEMENTS OF THE WISCONSIN ADEQUACY PLAN

- THE BASE PROVIDES A PER-STUDENT FUNDING FLOOR.
- THERE ARE ADDITIONAL FUNDS FOR POVERTY, SPECIAL EDUCATION, ENGLISH LANGUAGE LEARNERS, AND EXTRA RURAL COSTS.
- LOCAL DISTRICTS CAN SPEND MORE.
- REFERENDA FOR CAPITAL PROJECTS ARE REPLACED BY BOARD VOTES AND/OR APPROVAL BY A STATE COMMISSION.
- STATE AID PROVIDES PROPERTY TAX RELIEF.



The **Wisconsin Adequacy Plan** contains these elements:

- Long-term growth toward full adequacy goals;
- Foundation level of \$9,200 (in 2004 dollars);
- Reimbursement of 80% of special-education expenses (more for children with exceptionally high costs);
- Reimbursement of 90% of programs for English language learners;
- For students eligible for subsidized lunch, \$3,500 for those in grades K-3 and \$800 for those in grades 4-12;
- A per-pupil sparsity/transportation adjustment, ranging from \$1,300 per pupil in the most rural districts to \$80 per pupil in cities;
- Funding for capital projects through a state commission, no longer requiring time-consuming and expensive referenda. If state aid is used, dollars for capital needs can be approved by a school board super-majority vote;
- The option for school districts to spend above Adequacy levels with a school board super-majority vote;
- Property tax relief by replacing some local levy with state revenue.

WHEN

Adequacy can begin NOW.

1. Adopt Adequacy as the guiding principle for long-term school-finance reform.
2. Embark on a state-commissioned cost-out to determine the actual cost of attaining educational standards.
 - Cost-outs are now the standard way to develop school-finance reform plans.
 - Cost-outs have been done across the United States. Most were ordered by courts or state governments. A dozen of them will be completed in 2003 or are forthcoming in 2004. Another dozen were completed before 2003.
3. There is enough money to begin this reform. One penny of additional sales tax revenue (increase state sales tax from 5% to 6%) – or its equivalent in revenue – would generate about \$820 million annually. This \$820 million will:
 - Provide \$200 million in targeted tax relief;
 - Restore the \$307 million shortfall in state aid for the 2004-'05 year (the amount by which state aid will fall short of a "two-thirds" share);
 - Provide over \$300 million to restructure the system without any district losing state aid.

Funding Our Future

The Wisconsin Adequacy Plan



Developed by Members of the
Wisconsin Alliance for Excellent Schools (WAES)

www.excellentschools.org

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Wisconsin Alliance
for Excellent Schools

Introduction

Wisconsin faces critical decisions about its future. State government is hampered by a multi-billion dollar structural deficit; wages for Wisconsin workers continue to lag behind national averages; and the impact of recession lingers. Overcoming these and other problems for the long term requires, among other things, a highly effective system of public education. The health of our state depends more on public schools than any other tax-supported institution.

However, Wisconsin's public schools are financially stressed and unable to meet this historic challenge. Too many schools are short of funds, and too many children's educational needs are unmet. The vast majority of the 426 school districts in Wisconsin have serious financial problems.

The system now in use to fund public school schools no longer works. For almost a decade, school districts have operated under spending caps that have limited revenues below rising costs. The state's failure to meet its commitment to pay sufficiently for special-needs students has made the situation worse.

School districts have done what they can with their tight budgets: from canceling textbook orders to postponing essential building maintenance, from eliminating counselors and after-school programs to cutting back on core academic services. Wisconsin teacher salaries have fallen below national averages, and well below those in neighboring states, worsening the shortage of teachers in many subjects and many parts of the state.

Unfortunately, the state budget deficit has prompted some legislators to propose cuts in school funding, to generate savings to help fill the state fiscal shortfall. Some others press merely for minor adjustments in the current system, to address problems in select districts.

But the way Wisconsin currently funds its public schools is broken beyond repair. The system is so complicated that trying to fix one problem can create new difficulties. Fine-tuning is impossible. A growing portion of the public is aware that fundamental reform is the only way to ensure a strong, viable public-school system to educate Wisconsin's citizens in the new century.

Background

The current Wisconsin school finance system, established in the early 1990s, was designed primarily to restrict the growth of school property taxes. It was not a strategic approach to improving educational outcomes in relation to the long-term economic health of Wisconsin. The three-pronged legislative package comprised of revenue limits, wage and benefit bargaining restrictions for teaching staff, and a two-thirds funding commitment by state government has lasted a decade, but is now bursting under the pressure of years of simmering problems.

In Wisconsin, educational goals are framed by the state constitution, the federal "No Child Left Behind" act, the Legislature, the Department of Public Instruction, and individual school boards. Taken as a whole, they require that all students have an equal opportunity to achieve proficiency, as measured by performance exams administered to all students. The goal of any school finance system should be to provide the resources needed for every child to meet these goals.

Adequacy

This school funding proposal is based on an “adequacy” model — the term developed nationwide to describe the dominant trend in U.S. school-finance reform efforts over the past dozen years.

Adequacy models start with specific educational objectives, define the resources required by schools to ensure students can meet these objectives and construct a finance system that provides districts with sufficient funding to provide these resources.

Adequacy defines a funding floor, a guarantee that every child has a minimum set of resources to give him or her an equal chance to achieve academic proficiency. Adequacy also ensures additional funding for students with special needs, especially those with disabilities, those needing special instruction to learn English, and those from low-income households. And adequacy addresses the importance of local control, providing local districts with the option for spending above state-required minimums.

Adequacy starts from the common-sense viewpoint that a public school funding system should be based on the state’s educational goals. Adequacy asks: What academic standards do we want our children to achieve? What resources do schools need so all students have an equal chance of achieving success? What staff, what materials, what courses, what kind of management structures are needed?

An adequacy system then determines how much money should be spent, based on the actual cost of those resources. If those costs are too high for the moment, then an adequacy approach requires either that the academic goals be lowered to make them affordable, or that adequacy be adopted as a long-term goal that can be approached over time as resources become available.

The Wisconsin Adequacy Plan uses, as a starting point, research conducted by the Institute for Wisconsin’s Future during 1998-2001. This research determined the staffing, programs, equipment and materials necessary for schools to maximize students’ opportunity to meet the Wisconsin proficiency standards. That research used methodology originally developed by James Guthrie and Richard Rothstein, national specialists in school finance analysis. Panels of educational experts designed prototype quality schools and delineated the staffing, programs and materials needed to operate these schools. A survey based on the resource standards outlined by the experts was sent to principals and teachers statewide as a “reality check”. The results of the survey, as well as information compiled from a national research review, were brought to a second expert panel which synthesized the findings with the original models and defined the key staffing, programming and equipment for quality schools.

Resource standards established through this method included:

- Small learning communities:
 - Elementary level — 350 students
 - Middle school level — 500 students (less in rural areas)
 - High school level — 600-1,000 students (less in rural areas)
- Small classes:
 - 20 students in grades K-3 (15 in schools with large numbers of students from low-income households)
 - 22 students in grades 4-5
 - 25 students in grades 6-12

- Curriculum:
 - Art, music, foreign language and advanced classes at all levels in addition to the core curriculum.
- Well-trained and compensated staff:
 - Ample time for staff development, coordinated throughout a school's entire staff; higher teacher salaries to meet the national average; incentives for staff working in high-poverty or rural schools.
- Technology:
 - Enough computers for all students, properly networked and regularly upgraded, with sufficient training for teachers to use them effectively.
- Special-needs students:
 - Reimbursement to schools for the extra costs of programming for students with disabilities, students needing training in English, and students from low-income.
- Parental involvement:
 - Staff support to increase parental involvement.
- Rural schools:
 - Special assistance for rural schools to cover the extra costs of educating small numbers of students in large geographic areas.

To complete the analysis, cost estimates were derived using actual costs from Wisconsin schools. The resulting financial estimates were subsequently used as a starting point for this proposal, elaborated below.

Wisconsin Alliance for Excellent Schools (WAES)

The Wisconsin Alliance for Excellent Schools is a statewide network of individuals and organizations that adhere to a set of five core principles around school funding reform. Those principles are:

- **More resources.** Wisconsin's public schools need additional resources — not just improved efficiencies — to educate all young people. Funding should be adequate for current needs while growing to meet future needs.
- **Foundation system (adjusted for local circumstances).** Districts should be guaranteed funds based on a statewide per-pupil foundation level. Funding levels should be adjusted for individual district characteristics.
- **State tax reform.** Additional revenue should come from some form of state taxes — not local property taxes.
- **Local control.** Individual school districts should control how their additional funding is utilized and be accountable over time for improved student performance.

- **New school finance system in 2003 – '05 budget.** School-funding reform legislation, based on the preceding principles, should be enacted as part of the 2003-'05 state budget.

In 2002, a core group of WAES participants comprised of individual school district superintendents and business officers, school board members, parent activists, teachers, clergy and other community leaders, policy analysts, and business persons met to develop a detailed school-finance plan, based on adequacy principles, that could be implemented as part of the state's 2003-'05 biennial budget. Their goal was to shape a reform proposal that would ensure sufficient resources within the state educational system to guarantee that all children — regardless of where they live or their special circumstances — have the opportunity to meet Wisconsin's rigorous academic standards.

The Wisconsin Adequacy Plan described in this document is the result of their work.

The Wisconsin Adequacy Plan:

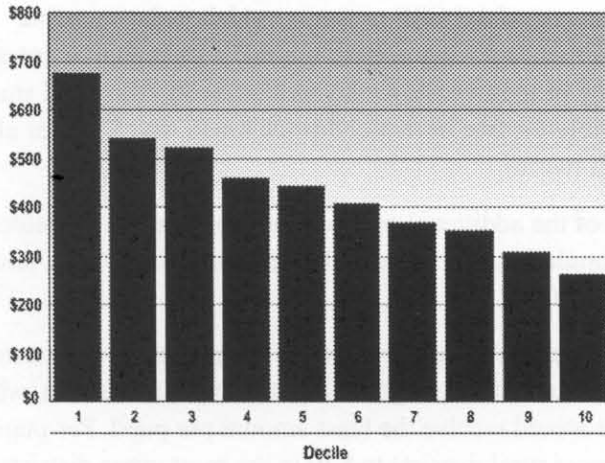
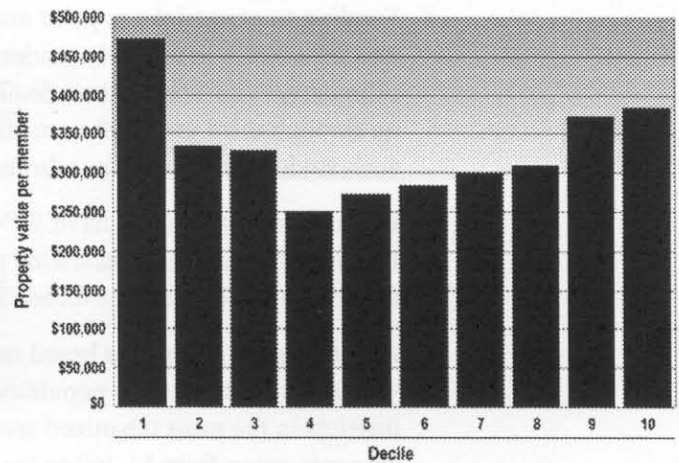
I. Spending levels and distribution of funds

Foundation plan with special-needs adjustments: The Wisconsin Adequacy Plan proposes what is known as an equalized foundation plan. A foundation-style plan is used in more than 40 states, but not in Wisconsin. In a foundation plan, there is a base or foundation amount of revenue guaranteed to support every child in the state: an equal amount for every student, regardless of where they live.

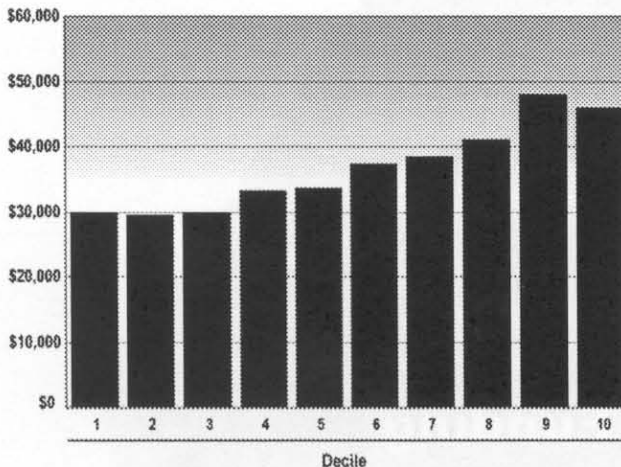
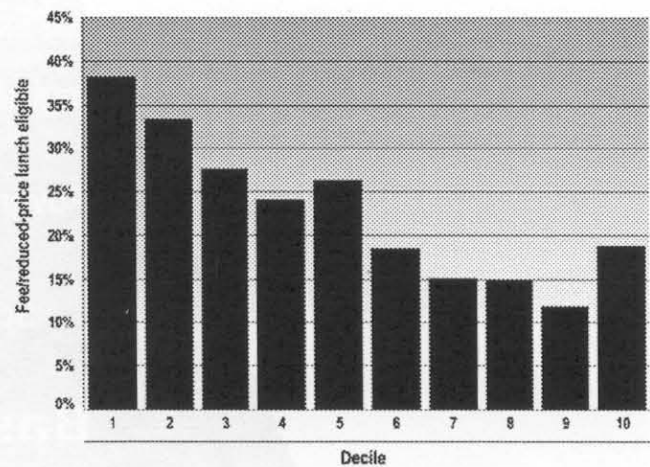
Under the Wisconsin plan, additional amounts are guaranteed for students in the three categories targeted by the State Supreme Court in its 2000 school finance decision: students with disabilities, students in poverty, and students with limited English skills. These three categories of students are widely recognized as requiring resources over and above those needed by other students, and special adjustments for them are included in most states' foundation plans.

The Wisconsin Adequacy Plan adds a fourth special adjustment, to help districts cope with structural factors outside classroom needs. These include the cost of student transportation and the inefficiencies forced on many smaller, rural districts.

Student Density Issues: In Wisconsin, rural districts have special financial burdens. Initial aid levels targeted toward small rural districts proved to be insufficient to meet actual cost growth. To understand why this occurred, the state's K-12 districts were divided into ten categories based on the number of students per square mile. These "density deciles" were then analyzed using a number of measures. The following charts demonstrate how each of the deciles — with Decile 1 having the lowest density and Decile 10 the highest density districts — compare on a range of variables.

Transportation Cost per Student**Property Value per Student**

Transportation costs are higher, for example. Rural districts tend to have higher property values when measured on a per-student basis – largely the result of sharply rising prices of lake property – and as a result, the current school-finance system penalizes them by providing less aid. But these same districts also have relatively high poverty rates and low incomes for year-round residents.

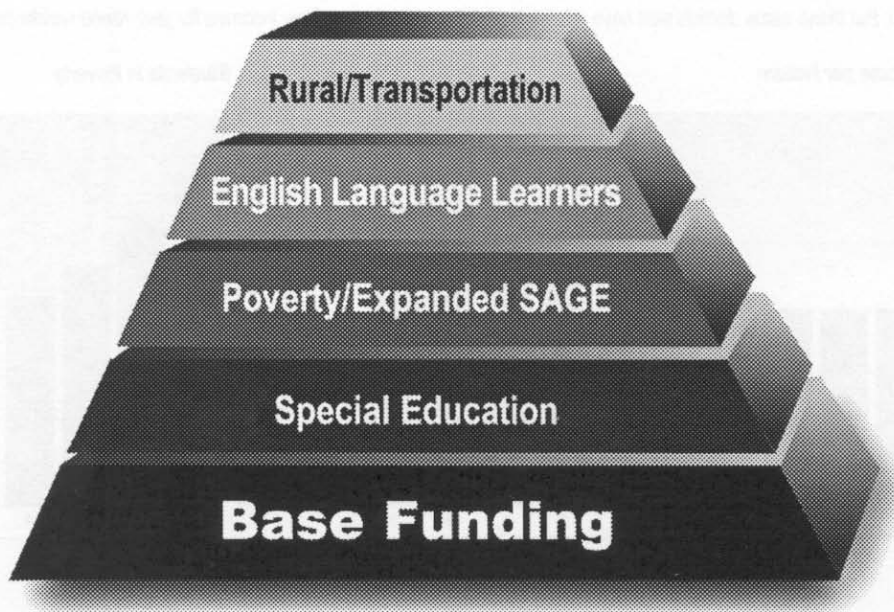
Income per Return**Students in Poverty**

So, a fourth adjustment is made to the funding formula, providing aid for all districts, to help finance transportation and other non-classroom expenses. This adjustment directs larger amounts of aid to districts with a low ratio of students per square mile.

Adequacy goals: Based on research and analyses by a number of education experts, it is possible to put dollar figures on each of the elements of the foundation plan. These figures are:

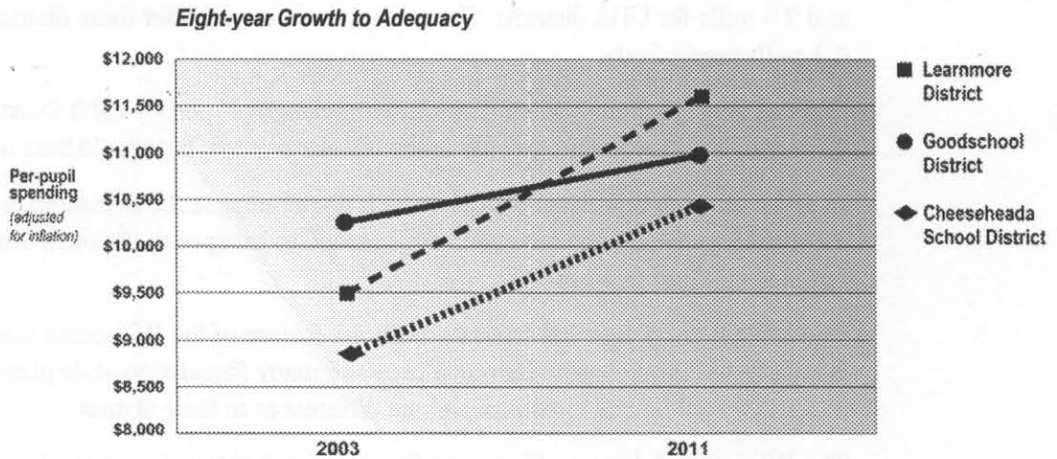
- \$8,500 as an annual foundation amount for every student in the state.
- Reimbursement to districts of 80% of the additional costs of educating students with disabilities. The average annual cost for a special education student is more than \$8,000, and current federal and state reimbursement is less than 50%, leaving schools to fund the rest from regular programming.

- For students whose disabilities result in exceptionally high costs, the state would reimburse districts for 90% of those costs which exceed three times the foundation amount (\$25,500).
- Funding to expand the popular and successful SAGE program, which makes possible smaller classes in the early grades for students, but only in schools with high concentrations of poverty. The Wisconsin Adequacy proposal calls for an additional \$3,200 for all students up through third grade who are eligible for free or reduced-price lunch, and \$700 for all such students in grades four through twelve.
- Reimbursement to districts of 90% of the additional costs of teaching English to children of immigrants, a growing statewide population. Current reimbursement is under 20%, and the average cost per student exceeds \$2,000.
- And per-pupil allotments based on a district's student density — students per square mile — with the most sparsely populated districts receiving the largest per-pupil amounts, while districts in the most urbanized areas would receive the least amount per pupil. Per-pupil amounts range from \$1,260 in the most rural districts to \$70 in the most urban districts.



Eight-year growth plan to adequacy: It is not practical — for many reasons — to raise school district revenues immediately from where they are to an adequate level of funding. So the Wisconsin Adequacy Plan calls for an eight-year phase-in period to gradually move districts on a growth path leading to adequacy.

This chart illustrates the eight-year growth plan, using three fictional districts as examples:

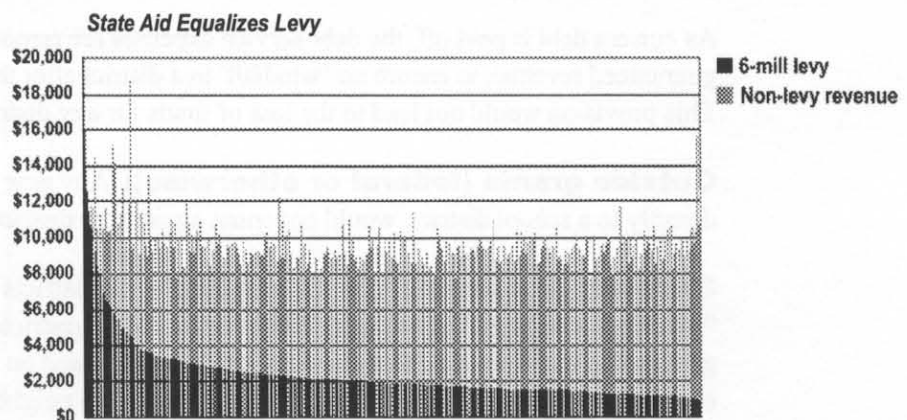


Each of these three mythical districts on the chart has a different level of per-pupil spending now, in 2003. And each has a different level of adequate funding, calculated using the foundation formula and the adjustments based on special needs. Different districts will have different adequacy goals because each has a different group of students, and therefore distinct resource needs.

The adequacy goal is set eight years in the future, and for each district, a growth line is charted so the district can grow from its current per-pupil spending to an adequate level. Each year during the eight-year transition, a district would be guaranteed enough funding to keep it on that growth plan toward adequacy. Per-pupil amounts would be adjusted annually to account for inflation. And to ensure that every district benefits, districts would be guaranteed a minimum annual growth rate of 1% over inflation.

II. Local Finance Structure

Local property tax, equalized by state aid: School districts would be required to maintain a local school property tax of six mills (each mill requires a tax payment of one dollar for each one thousand dollars of property value). The state average is presently about ten mills, so the plan would provide for immediate property tax relief.



In those cases where school districts go only from kindergarten through eighth grade, or where there is a unified high school district, the requirement would be lower: 4.2 mills for K-8 districts, and 2.4 mills for UHS districts. The current state averages for these districts are 6.5 mills and 4.2 mills respectively.

For that very small number of districts with enough property wealth to satisfy their needs without a six-mill tax, they would go only to the tax rate needed, but would then not receive any state aid.

In all cases — except those districts which do not impose the minimum required local tax — the local levy would be equalized with state aid to bring each district's total revenue up to the targeted level for that year.

Districts can spend more: A strong feature of the Wisconsin school system is that there is substantial local control. Revenue caps and many foundation-style plans take away the ability of local school boards to address unique differences in their district.

The Wisconsin Adequacy Plan provides a mechanism to enhance local control, by allowing an additional two-mill local property tax over and above the six-mill base requirement. A two-thirds vote of the school board would be required for this secondary local levy. State aid — equalized to take into account a district's property wealth — would supplement this second, discretionary property tax. This ensures that property poor districts are not at a disadvantage in offering their students an equal opportunity at academic proficiency. There will be a \$100 million pool of state aid for this discretionary second levy.

Future capital projects: Just as all students across the state have a right to textbooks, computers and quality teachers, they also have the right to a safe and healthy learning environment. The Wisconsin Adequacy Plan provides that for capital projects such as new schools or major repairs, a district would be able to levy up to an additional three mills, with a two-thirds vote of the school board.

Equalized state support is needed to assure that all children have an equal opportunity to have good facilities. A new statewide school facilities commission would be created and would have the authority to decide if the project satisfied educational criteria in order to receive state aid to supplement the local property tax contribution. If the state commission rejects all or part of a proposed project, the district could still proceed, but would not receive state aid for the rejected part of the proposal.

As current debt is paid off, the debt-service expenses are removed from a district's state-guaranteed revenue, to ensure no 'windfall' to a district after the pay-off of existing debt. This provision would not lead to the loss of funds for any district, once existing debt is paid.

Outside grants (federal or otherwise): Any new grants, federal or other, distributed directly to a school district, would not count against the district's state aid distribution.

Special adjustment: A limited number of rural districts may need additional aid, using a "small but necessary" adjustment. Eligibility would be restricted to small districts with severe geographic inefficiencies that can demonstrate need based on financial distress, small enrollment, large geographic size, and long distances to neighboring schools. Aid would be limited to a maximum of \$300 per student from a total pool of \$4 million.

Declining enrollment: More than half the districts in the state have declining enrollments. This causes financial problems, because revenues — based on enrollment — fall faster than do expenses. To help offset the problems of declining enrollment, districts would be credited with their highest membership total from the previous five years.

III. State Finance Structure

According to the Wisconsin Constitution and numerous rulings by the Wisconsin Supreme Court, public education is a fundamental responsibility of state government. As such, it is appropriate that state government provide the bulk of funds for local schools. Individual school districts, subject as they are to widely varying levels of local property wealth, local income, and local politics, are not an appropriate source for the significant funding required to provide students the educational opportunities they need.

Further, Wisconsin's tax structure has changed over the past few decades, in ways that have put additional burdens on individual property taxpayers and individual income-earners. Since 1970, the residential property tax has grown from about half of all property tax collections to about two-thirds. Since 1980, income tax collected from individuals has tripled, while corporate income tax collections have increased by less than 70%. Part of the proposed financing mechanism would reduce the tax burden on local property owners. And in order to finance the Wisconsin Adequacy Plan at a time when the state faces budget shortfalls, it would be helpful to increase the tax burden on those whose burden has been significantly lightened in recent years.

As explained above, a six-mill levy (4.2 for K-8 districts, 2.4 for UHS districts) is required to be eligible for any state aid. These levels would mean a reduction in property taxes for virtually every property owner in the state. In some cases, the current school levy exceeds fifteen mills.

In addition, as explained above, districts might, at their discretion, impose up to another two mills in local levy (supplemented by state equalization aid) for general school purposes. And districts might, at their discretion, impose up to another three mills in levy (supplemented, if approved, by state equalization aid) for capital projects. Both these discretionary levies would require the approval by two-thirds of the school board, but would not require referendum approval.

State aid would then be provided to make up the difference between what a district raises through the local levy, and what is required under that district's eight-year growth plan.

IV. State Revenue Plan

Increased state sales tax: To pay for the reductions in local property taxes, the state would need to provide additional revenue. The Wisconsin Adequacy Plan proposes that this be generated by an increase in the state property tax. For the first two years of the plan, an increase in the rate from its current 5.0% to 6.2% would generate enough revenue both to offset the reduction in local property tax revenue and the additional funds necessary to implement the initial years of the eight-year growth plan.

This proposal assumes that there is no expansion in the scope of services subject to the state sales tax. However, a very large number of services are currently exempt from the sales tax,

and if any of them were to be included in the sales tax, a correspondingly lower increase in the sales tax rate would be possible.

It is not critical that the Wisconsin Adequacy Plan be funded by an increase in the state sales tax. Other sources of state revenue could be used, at the discretion of the Legislature and governor. But the sales tax was selected by statewide focus group participants as the most acceptable source of new revenue.

V. Fiscal impact of the Wisconsin Adequacy Plan:

Implementation of the Wisconsin Adequacy Plan would require spending over and above current levels. First, the plan assumes that inflationary adjustments are made, so that districts do not lose funding simply through inflation. The most recent inflationary adjustment in the revenue cap was \$230 per student. If that were maintained in the next budget biennium, the cost would be approximately \$201 million per year, based on 2002 student enrollments.

<i>Fiscal Impact of WAES Plan —</i>	1st year of WAES -- Increase over year zero	2nd year of WAES -- Increase over year zero
Inflation adjustment (\$230/pupil)	\$201 million	\$401 million
WAES increase (before discretionary levy)	\$176 million	\$360 million

In addition, increases in spending are required under the Wisconsin Adequacy Plan. In the first year of the plan, an additional \$176 million would be provided for school districts, over and above the inflationary adjustment and not counting the possible secondary, discretionary levies that can be imposed by local districts. In the second year of the plan, an additional \$184 million would be made available, not including the discretionary levy.

Use of the discretionary levy would provide the possibility of an additional \$100 million in state aid each year, plus whatever is raised through the discretionary local levy. An increase in the state sales tax from 5.0% to 6.2% would cover the increased state aid, including the \$100 million each year in equalization aid for the discretionary levy.

Segregated fund for K-12: Public education is such an important part of government, and such a large part of state and local spending, that it makes sense to segregate its financial system from the rest of state government. The Wisconsin Adequacy Plan proposes the creation of a segregated fund for K-12 finance.

Each year, the amount of current state funding — adjusted for inflation — would go into this new fund. In addition, the value of the sales tax increase — the increase from 5.0% to 6.2% — would also go into the segregated fund.

Rainy-day fund: To ensure stability in the K-12 fund, each year any surplus in the segregated fund would be retained, to build a rainy-day security for future economic downturns.

School-finance and the structural deficit: It's clear that the crisis in public school funding must be solved in the context of the larger state budget shortfall. But it is also clear that public schools must not be used as a scapegoat for the larger budget problems, and they should not see their funding reduced or frozen as part of a solution to the budget problems.

It is precisely because of the state's difficult current financial situation that WAES is proposing a gradual, eight-year path to full adequacy. Further, it is likely that even if the Legislature and governor were in full support of the WAES proposal, it might be impossible to implement it in time for adoption in the first year of the biennium, 2003-'04. Postponement until the second year would push the entire eight-year program back one year, and thus save money during the upcoming two-year state budget cycle. Indeed, this approach would mean that the entire cost of this proposal during the coming budget would be just \$176 million, plus an inflationary adjustment.

There are many ways to accommodate both the Adequacy proposal and the structural deficit. For example, the Legislative Fiscal Bureau has reported that a return to the tax structure in place as recently as 1999 would generate over \$2 billion in the coming biennium. Savings are possible throughout state government and schools, through such mechanisms as consolidated purchasing. An expanded sales tax base would generate additional state revenues, as would adjustments in various tax rates, such as federalizing the treatment of capital gains on individual income taxes, or increasing the corporate income tax rate. There are various proposals for saving money on state and local government health-insurance rates, including an AFL-CIO plan.

Adoption of some set of these or other alternatives would provide enough revenue for the state to solve its structural budget woes and fund the initial stage of the Adequacy proposal.

Accountability:

Taxpayers and parents must see a connection between more resources and better performance. Indeed, the Federal No Child Left Behind Act mandates measurement of progress toward specified goals.

Districts should be held accountable for improved performance. A statewide effort should decide on a group of quantitative measures and ways to evaluate progress, using a variety of data including such things as the state standardized WKCE tests, graduation rates, attendance rates, and others.

A district's failure to make progress over time toward these agreed-upon goals would lead to a phased-in intervention process by the state.